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China/Cuba: Bicycles, But No Free Ride  
China: Tightening Control Over Soldiers And Spies  
China: Crime Crackdown Continues  
China: A Taxing Problem

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The Soviet collapse has not caused China to change its arms-length relationship with Cuba. [REDACTED]

being manipulated; have clearly sought to maintain their distance. The Chinese, wary of

Rhetorical support. The two countries have exchanged no-cost rhetorical support for political causes. China has long supported Cuba's call to lift the US economic embargo, and Cuba was one of the few countries to defend China's suppression of students at Tiananmen. By recently donating substantial medical assistance for China's flood relief, Cuba may have hoped that China would reciprocate with generous economic assistance--a hope likely to be disappointed. There is no indication Beijing has responded to Havana's past overtures for military cooperation.

Economic ties. Cuba has become one of China's largest trading partners in Latin America; bilateral trade conducted through barter at world-market prices now totals over \$500 million. In return for 900,000 tons of sugar this year, China is providing 40% of Cuba's rice needs. The Chinese, who have rejected Cuban efforts to sell still more sugar, view prospects

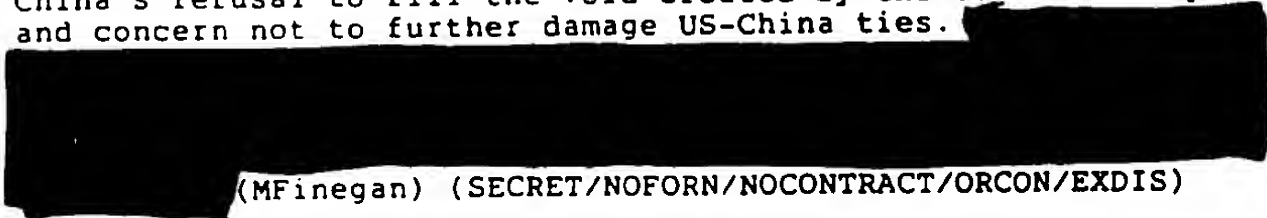
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for trade as limited because Cuba lacks hard currency and has a single-export economy. Though willing to provide limited credit, Chinese officials have rejected the idea of selling rice at subsidized prices.

China also supplies light industrial goods, including bicycles for Cuba's fraying transport system. Cuba hopes to export medical supplies and other products to China. Pursuant to a new five-year trade agreement signed in January, Chinese and Cuban state enterprises plan to build Cuba's first electric-motor factory with Chinese equipment and technical help. But the Chinese are critical of the Cubans for not carrying out Chinese-style economic reforms and do not wish to be victimized by Cuba's economic collapse.

Flow of visits. After a 1989 exchange of visits by foreign ministers, numerous delegations and official visitors have traveled between the two countries. Chinese Communist party leader Jiang Zemin was scheduled to visit Cuba, Brazil, Argentina, and Venezuela this month, but the trip has been postponed until the first half of 1992. The long delay signals China's refusal to fill the void created by the Soviet collapse and concern not to further damage US-China ties.



(MFinegan) (~~SECRET/NOFORN/NOCONTRACT/ORCON/EXDIS~~)

## II. CHINA: TIGHTENING CONTROL OVER SOLDIERS AND SPIES (September 27, 1991)

Alarmed by the splintering of the Soviet Army and KGB during the failed coup, Beijing is renewing efforts to assure the reliability of its own military and security forces. Deng Xiaoping reportedly is considering personnel and structural changes intended to bolster his chosen successor, party chief Jiang Zemin. But factionalism and disillusionment within the armed forces (PLA) and security agencies will continue to raise questions about their reliability in times of crisis.

Immediately after the 1989 Tiananmen crackdown, Deng and other top leaders instigated a thorough investigation of the actions of military, police, and intelligence agencies and officers during the crisis. Dozens--perhaps hundreds--of high-ranking officers reportedly were punished. Deng and Military Commission Vice Chairman Yang Shangkun subsequently engineered the most extensive reshuffle of PLA personnel since the 1970s. For almost two years after Tiananmen, the PLA was subjected to an intense propaganda campaign aimed at assuring loyalty to the regime.

Back to "normal"....briefly. During the latter half of 1990, the PLA propaganda blitz began to wane, and top officials again began to emphasize professionalism and military training. But professional excitement within the PLA over the dazzling display of modern technology during the Gulf War once again raised leadership concerns about PLA loyalty.

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Tightening party control over the military and security forces is intended to bolster Jiang's grip and ensure a smooth succession. But factionalism and resentment remain rife within the PLA and intelligence agencies over aspersions on their loyalty.

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(CClarke)

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### III. CHINA: CRIME CRACKDOWN CONTINUES (9/26)

For more than a year Beijing has been running a "serious smashing" campaign to check a rapidly rising crime rate that, although low by international standards, ranks high among public concerns. Officials publicly blame "bourgeois liberalization" for the rise, but recognize the main causes are increased

mobility, greater wealth, and weakened social controls. Undermanned and ill-trained police, judicial, and legal agencies sometimes abuse basic rights in their efforts to crack down on crime.

Beijing intermittently declares war on crime; a 1983-85 crackdown [REDACTED]

[REDACTED] resulted in thousands of executions. According to official statistics, reported crimes increased from 820,000 in 1988 to 1.97 million in 1989, with the crime rate per 10,000 people rising from 5.4 in 1987 to 7.6 in 1988 and 17 in 1989. Officials called last summer for another major anti-crime campaign, which resulted in a dramatic increase in the number of executions in 1990 and 1991.

Assuaging public anger. After the Tiananmen crisis Deng reportedly ordered younger leaders to take measures to assuage the angry populace. Chinese surveys rank crime--especially official corruption--just below inadequate housing as a source of popular ire. According to one survey, 38% of those asked did not feel safe, and 70% said there were not enough police; 60% believed China's police were too lenient, while only 2% found them too harsh.

Changing characteristics. Chinese criminals are increasingly young, well-organized, and armed. In recent years youths aged 14-17 have made up 20% of all criminal cases; cases involving juveniles increased 18% in 1988 and 37% in 1989. Criminal gangs have become a major problem; recent press accounts have described gangs that have terrorized rail lines, intimidated rural areas, and disdained even big-city police forces. Use of firearms, including handguns and assault rifles, is rising.

Major targets. In addition to violent offenses, Beijing is focusing on crimes earlier thought to have been stamped out. These include the "six vices": prostitution, pornography, drug trafficking, gambling, abduction and sale of women, and defrauding through "feudal superstition." In June and July alone, more than 29,000 people were arrested on prostitution-related charges; China for the first time in decades faces a growing problem with sexually transmitted diseases. In 1990 officials rescued more than 10,000 women and children who had been abducted and sold as wives or step-children, almost certainly only the tip of the iceberg.

A struggling system. The crime wave is straining China's police and judicial systems. China has far fewer police than the United States on a per capita basis, and only a handful of lawyers. Adequate legislation often is lacking; China passed stiff new laws this year against drug trafficking, prostitution, and abduction of women. Political pressure to show results, the poor quality of personnel and training, and the urgency of responding to rising crime rates sometimes result in officials cutting corners. Earlier this month the

police system's newspaper denounced officials who coerce confessions; in 1990 prosecutors investigated more than 4,500 cases of police abuse of authority. (CClarke)  
(SECRET/NOFORN/NOCONTRACT/ORCON)

#### IV. CHINA: A TAXING PROBLEM (9/27)

China's budget deficit this year will substantially exceed last year's record of nearly \$10 billion. Budgetary reform of both revenue and expenditure practices, though a pressing need in the view of the World Bank, would be politically divisive and thus is unlikely in the near term. The central government once again is trying to recentralize budget authority; past attempts were frustrated by local opposition, and prospects for success this time are slim.

China's leaders this year have made a significant effort to trim the budget deficit. Some state-set prices (mainly in the metallurgy and energy sectors) and fees for rail transport have been raised to improve the financial health of key state-owned enterprises--in hopes of increasing tax receipts and lowering government subsidies to firms in the red. Subsidies for exports and price subsidies for grain and edible oil have been reduced. Additional fees have been levied on state enterprises and lower-level government and administrative organizations. The state council once again has called for social and political organizations to cut their spending on consumer goods, especially on such items as new cars for senior officials.

In the black, though not for long. The budget was in surplus at mid-year, but agricultural procurement concentrates government spending in the July-December period. The earnings of state-owned firms, which compose most of the tax base, continue to sag, and extensive flooding during the summer--the worst the PRC has experienced--has put heavy demands on Beijing for assistance.

Leadership's concerns. Top leaders' concerns about the budget focus on the danger of rekindling rapid inflation and the center's loss of control over investment. Though the deficit, at 3% of GNP, is small by international standards, the government only recently took steps to expand significantly the bond market and still depends on overdrafts of its accounts at the People's Bank of China to finance much of its deficit. The combination of overdrafts and increased bank lending to producers and distributors during the past 12 months--much of it inadequately secured and part of it used to pay taxes--has left many Chinese economists convinced a new round of inflation is inevitable. Prices in major cities already are moving up, but slack demand in the countryside, where most Chinese live, has kept increases in the nationwide retail price index fairly low thus far.

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The leadership is at least as concerned about the center's steadily diminishing influence over the size, direction, and content of investment. Revenue-sharing contracts with provincial governments have retarded increases in central government revenue, and the share of the budget earmarked for current spending is rising because of policies to raise outlays on education, social welfare, and defense. As a result, centrally controlled capital spending is being squeezed.  
(WNewcomb/INR/EC) (CONFIDENTIAL)

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